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November 26, 1997

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

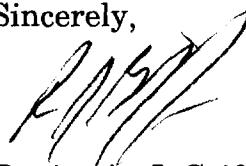
Re: Federal-State Joint Board on Universal Service (CC Docket No. 96-45)

Dear Ms. Salas:

Submitted herewith on behalf of the State of South Carolina, Budget and Control Board's Office of Information Resources ("SCOIR") and pursuant to Section 1.1206 of the Commission's Rules are two copies of an ex parte presentation made in the above-referenced proceeding.

Best regards.

Sincerely,



Benjamin J. Griffin

Counsel for **South Carolina**
Budget and Control Board,
Office of Information Resources

BJG:jw

cc: Irene M. Flannery, Esquire - Room 8922
Richard D. Smith, Esquire - Room 8612
Lori Wright, Esquire - Room 8603
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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service (CC Docket No. 96-45)

Dear Ms. Salas:

On September 26, 1997, the National Association of State Telecommunications Directors ("NASTD") filed an *Ex Parte* Supplement in the above-referenced proceeding describing how State Telecommunications Networks ("STNs") operate to procure, on a competitive procurement basis, various elements of telecommunications equipment and services, bundle the elements into numerous statewide telecommunications services and provide those services to government agencies and departments (including, in many cases to K-12 schools and libraries) at the state and local levels. The pricing to the users of the STNs is based on the costs of the various components of the STNs plus a small "administrative fee" to cover the costs of the state departments or agencies that procure and operate the STNs.

Recently, Commission staff has inquired as to the level of the administrative fees that STNs include as part of the rates they charge the governmental users of their systems. In response to the staff's inquiry, the State of South Carolina, Budget and Control Board's Office of Information Resources ("SCOIR"), in coordination with other NASTD members, undertook to gather information regarding the STN administrative fees. SCOIR was able in this short time frame to obtain sufficiently detailed responses from seven states of differing sizes. SCOIR believes this to be a reasonably representative sample, and believes that the range of fees indicated provides a close approximation of the boundaries within which the large majority of states' fees are likely to fall.

At the outset, it should be noted that none of the administrative fees constitutes a "profit" to the STN agency. Moreover, no portion of the administrative fees goes to fund state government programs not related to the STN activity. Rather, the administrative fees are used to cover STN activities associated with such things as telecommunications service and equipment procurement and contracts administration, customer service, billing and collection, office rent for STN employees, salaries, data processing, etc. The rates assessed to STN users, which include the administrative fees, are subject to state oversight and federal oversight and audit pursuant to OMB Circular # A-87.

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The specific responses received from the various states regarding the administrative fees reveal the following:

1. South Carolina: Specifically with respect to the schools' and libraries' interconnectivity program in South Carolina, the SCOIR procures the telecommunications equipment and services necessary to implement the project, and manages this network for the benefit of the schools and libraries. In the 1997-1998 fiscal year, SCOIR will receive about \$10 million for the services it provides to the schools and libraries. Of that amount, approximately 4.1% constitutes the administrative fee i.e., the costs incurred by SCOIR to administer the program. The remaining money reimburses SCOIR for the telecommunications services and equipment SCOIR procures from vendors for use in the interconnectivity program.
2. Nebraska: Nebraska's STN has an administrative fee of 5% to cover the administrative costs associated with providing telecommunications services to state, federal, and local government entities in Nebraska.
3. Minnesota: The State of Minnesota's STN imposes different levels of fees on different services that it provides. For example, the administrative fee on local voice services is 3.2%, the administrative fee on data network services is 12.2%, and the administrative fee on voicemail is 4.5%. The total administrative fee for all services offered by the Minnesota STN is 7.9%.
4. Texas: In Texas, the average administrative fee billed to Texas STN users currently is 3.4%. The rate has never exceeded 4%.
5. Louisiana: Louisiana assesses an administrative fee of 8% to recover the costs associated with the management and administration of data network services in its STN.
6. North Carolina: For its school interconnection project, the North Carolina STN has established a flat administrative fee of \$10.00 for each connection to cover the STN's administrative costs. On the \$350 per month cost of a 56 kbps connection to a school, a \$10 administrative fee amounts to 2.6%. For a T1 connection to a school, the \$10 administrative fee amounts to 1.38% of the \$725 charge.
7. Florida: Florida assesses an aggregate administrative fee of approximately 7% to recover the costs associated with the management and administration of its STN.

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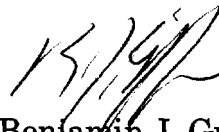
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As these examples illustrate, the administrative fees assessed by these STNs are reasonable and are designed to recover only the costs incurred by the STN operators in administering the network services they provide to their end users. Also, as indicated in the NASTD filing of September 26, 1997, the charges paid by schools, libraries and other users of STNs (which include the administrative fees) are much lower than the individual schools, libraries or government agencies could obtain by procuring their telecommunications services independently from commercial carriers. By virtue of the ability of STNs to negotiate volume discounts and other favorable arrangements with underlying carriers and equipment suppliers, the overall costs of network services provided by STNs are much lower than could be obtained by agencies on an individual basis. Many education and library representatives are well aware of this and have voiced their support for permitting STNs to participate directly in the Schools and Libraries Universal Service Program.

Should you have any questions regarding this material, do not hesitate to contact us.

Best regards.

Sincerely,



Benjamin J. Griffin

**Counsel for South Carolina
Budget and Control Board,
Office of Information Resources**

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